

Opening remarks by Acting STL at Hong Kong Aviation Finance Forum 2023 (English only)

Following are the opening remarks by the Acting Secretary for Transport and Logistics, Mr Liu Chun-san, at the Hong Kong Aviation Finance Forum 2023 today (December 4):

Stanley (President of the Hong Kong Aircraft Leasing and Aviation Finance Association, Mr Stanley Hui), distinguished guests, ladies and gentlemen,

Good afternoon. First of all, may I extend my warmest welcome to each and every one of you to the Hong Kong Aviation Finance Forum 2023, organised by the Hong Kong Aircraft Leasing and Aviation Finance Association and supported by the Hong Kong SAR (Special Administrative Region) Government. I know some of you have flown across continents to attend today's event, for which I am truly grateful. It has not been easy for us all over the past few years as the COVID pandemic caused disruption to travel and business, but I am proud to say that Hong Kong is back! With a proven edge and resilience, we gather here in Hong Kong for the first time after the pandemic. Today, I invite you to join Hong Kong's journey to explore the vast opportunities and potential that the aircraft leasing sector holds, while delving into the enhancement measures for Hong Kong's aircraft leasing preferential tax regime.

As we all know, the aviation industry plays a pivotal role in connecting the world, facilitating global trade, and driving economic growth. Aircraft leasing has a key function in making this happen, by providing flexible financing solutions, fostering fleet expansion, and supporting airlines in meeting their operational needs. We fully recognise the significance of the sector, and have therefore taken substantial steps to create an environment that facilitates the development of aircraft leasing in Hong Kong, and to attract industry players and investors alike to come and do business.

There are a host of factors contributing to the attractiveness of Hong Kong as an aircraft leasing platform. Our sound legal and banking systems, well-developed and diversified capital markets, and excellent aviation infrastructure and talent are some examples. Obviously, these are common features of the major aircraft leasing centres in the globe. What I wish to highlight is our proximity with the Mainland market, especially in terms of institutional ties. You may note that our current 5 per cent withholding tax rate with the Mainland on lease rentals derived from aircraft leasing businesses is lower than that of other major leasing hubs. This is one of the favourable treatments given by our Central Government, for Hong Kong to thrive as an aircraft leasing hub in the region and share the fruit of China's fast-growing aviation market. Equally if not more importantly, Hong Kong possesses the institutional strengths of "one country, two

systems", and is the only common law jurisdiction within China. Leveraging our highly market-oriented and international business environment underpinned by the rule of law, we are confident in serving as the ideal connector and value adder between Mainland China and the world.

With all these strengths, we introduced an aircraft leasing preferential tax regime in Hong Kong in 2017 to provide competitive profit tax concessions to incentivise aircraft lessors to conduct businesses in Hong Kong. Since then, the aircraft leasing business has started to thrive here. The past couple of years have undoubtedly been a testing time for the aviation industry. But as we always say, with risk comes opportunity. Despite the unprecedented disruptions and uncertainties, aircraft leasing has continued to adapt to the changing environment and has seen potential for transformation and innovation. In particular, we have observed a shift in demand, as airlines seek to optimise their fleets and manage costs. Also, aircraft leasing proves to be a versatile option for purposes that could go beyond flight operations.

Another key development that has influenced the aircraft leasing landscape is the ongoing discussions surrounding BEPS (base erosion and profit shifting) 2.0, the international tax reform proposals drawn up by the Organisation for Economic Co-operation and Development. You are all experts in the aircraft leasing business, and I am sure that I do not need to repeat the implications that the introduction of the minimum global effective tax regime will have on global aircraft lessors. In light of BEPS 2.0, Hong Kong is determined to act fast and review our policies. We understand the trade's concerns, and assure you that the Hong Kong Government is fully committed to fortifying Hong Kong's competitiveness in the global aircraft leasing industry.

Ladies and gentlemen, I am pleased to announce that significant changes to Hong Kong's aircraft leasing preferential tax regime are underway. As some of you may be aware, we conducted a trade consultation at the end of 2022 on the proposed enhancement measures to strengthen the competitiveness of the preferential tax regime. Very positive feedback was received. As a start, the Government implemented two measures via administrative means in the first half of this year. The remaining enhancement measures require amendments to the Inland Revenue Ordinance of Hong Kong. Here is the good news – the relevant amendment bill was introduced into the Legislative Council for scrutiny last week. I understand some of these measures have been long wanted by the trade and are, in fact, revolutionary. To enable aircraft lessors to enjoy the enhanced regime as early as possible upon passage of the bill, the legislative amendments will take retrospective effect from the year of assessment beginning on April 1, 2023. Mr Benjamin Chan, our Deputy Commissioner of Inland Revenue, will provide you with more details later in this forum.

Hong Kong is a top-tier place for trade and business, and we have every confidence that this will continue with the support of our international partners. Our role as the Government is to provide and sustain a conducive business environment for you all. We hope that with the enhancement measures

to our preferential tax regime, you will find the vast potential and benefits that Hong Kong has to offer. Together, let us navigate the winds of change, embrace the new realities, and build a brighter future for the aircraft leasing industry in Hong Kong.

Before I close, I wish to express once again my deepest gratitude to the Hong Kong Aircraft Leasing and Aviation Finance Association, and to all participants and speakers who have made this forum possible. I look forward to fruitful exchanges at today's forum on the opportunities that lie ahead, with existing partnerships consolidated and new ones established.

Last but not the least, for those friends who are Hong Kong residents, I would like to remind that the District Council Election will be held on the coming Sunday (December 10). Please cast your vote for a better community. Thank you.